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FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS

Question of unliquidated obligations

Report of the Secretary-General

1. The General Assembly, in paragraph 14 of its resolution 45/235 of 21 December 1990, reaffirmed the importance of strict compliance with financial regulations and rules on the subject of unliquidated obligations and requested the Secretary-General, in the light of his experience in implementing the new budget process and in the context of the recommendations of the Board of Auditors, to analyse outstanding issues on the subject and to submit a thorough report to the Assembly at its forty-sixth session.

2. The applicable financial regulations are 4.3 and 4.4, which state:

"Regulation 4.3: Appropriations shall remain available for twelve months following the end of the financial period to which they relate to the extent that they are required to discharge obligations in respect of goods supplied and services rendered in the financial period and to liquidate any other outstanding legal obligation of the financial period. The balance of the appropriations shall be surrendered.

"Regulation 4.4: At the end of the twelve-month period provided in regulation 4.3 above, the then remaining balance of any appropriations retained shall be surrendered. Any unliquidated obligations of the financial period in question shall, at that time, be cancelled or, where the obligation remains a valid charge, transferred as an obligation against current appropriations."

I. BACKGROUND

3. During the audit of the accounts of the organization for the biennium 1988-1989, the auditors noted that the above financial regulations had not been complied with in full in respect of certain obligations that had arisen during the preceding biennium, which ended on 31 December 1987. In essence, certain large obligations outstanding at the end of that biennium could not be liquidated during the ensuing 12-month period and remained outstanding, as valid obligations, at 31 December 1988. Notwithstanding the provisions of financial regulation 4.4, the Secretary-General transferred these charges to accounts payable, rather than cancelling them, or requesting that they be re-obligated against the appropriations of the then current financial period (i.e. the biennium 1988-1989).

4. In response to the observations of the auditors, the administration noted, as reflected in paragraph 65 of the report of the Board of Auditors 1/ that

> "With the introduction of new procedures related to budgetary ceilings, revised estimates and the contingency fund, it has become virtually impossible to seek budgetary authority for a major expenditure in a new biennium to replace a lapsed obligation from a previous biennium which remains due and payable. Where funds are not available in the new biennium to meet valid but unpaid obligations, the only viable alternatives are either to abandon the project, and thus incur possible legal ramifications, or to convert the available credits from the previous biennium into accounts payable."

The Secretary-General concluded that "in a few exceptional cases, the latter course of action [had] been taken".

5. The Board of Auditors responded (paras. 66 and 67) by stating the belief that the financial regulation was unequivocal and by recommending strict adherence to it, including the surrender of the remaining balance of the account in question and the seeking of reappropriation for any remaining obligations that were still valid.

6. The Advisory Committee commented on the situation in paragraph 13 of its related report (A/45/570 and Corr.1) and stated its view that a solution to the problem created by the new budgetary process would be for the Administration to submit to the General Assembly an appropriate amendment to financial regulation 4.4.

II. DEVELOPMENTS SINCE THE FORTY-FIFTH SESSION

7. In view of the reaffirmation by the General Assembly of the importance of strict compliance with the financial regulations and rules, all remaining unliquidated obligations pertaining to the biennium 1988-1989 lapsed at the end of 1990, whether or not they represented valid legal obligations of the Organization.

8. As it happened, there were few remaining obligations from the previous biennium still outstanding at 31 December 1990 and most of these could be absorbed against appropriations of the current biennium without difficulty. However, there were certain exceptions, which are described in the following paragraph.

9. Under section 29 of the regular budget for the biennium 1988-1989, provision was made, as described in paragraph 29.55 (a) (i) of the budget document, for the conversion of the Chinese Stenographic Unit to word processing. At the end of the biennium, an amount of $198,000 remained obligated for that purpose, which, owing to delays attributable to the outside contractor, could not be utilized before the end of 1990. Under section 32, there were several projects of a long-term nature in progress at the end of the biennium. They include the elevator modernization programme and a short-circuit protection programme at Headquarters, and a number of projects at the Economic Commission for Africa (ECA), including a carpeting programme and the installation of a digital telephone system. Each of these projects is described in the budget document for the biennium 1988-1989, notably in paragraphs 32.5, 32.9 and 32.16. At 31 December 1989, obligations remained outstanding in a total amount of $5.3 million for the projects at Headquarters and $1.9 million for the projects at Addis Ababa. During 1990, the year after the end of the biennium during which obligations remain valid, there were unavoidable delays in each of these projects, including delays associated with the finalization of contracts, with the result that $0.7 million at Headquarters and $1.7 million at Addis Ababa had not been disbursed by the end of 1990. In accordance with the strict application of financial regulation 4.4, as stipulated by the General Assembly, those amounts, totalling $2.6 million, lapsed at the end of 1990 and have not been available for spending in 1991.

10. As far as the current budget is concerned, it may be expected that some of those contracts which had not been completed by the end of 1990, with consequent loss of funding, will be the subject of submissions in the second performance report for the biennium 1990-1991. This includes amounts of $0.2 million for technological innovations in the Department of Conference Services and $0.2 million for carpeting projects at Addis Ababa, since these projects have necessarily continued into 1991 without available funding in the 1990-1991 budget. In the Office of General Services delays in implementation of other projects budgeted for in the current biennium have resulted in funds being available to finance leftover obligations from the prior biennium. However, at ECA certain projects, such as the installation of a digital telephone system, have had to be postponed and will be reintroduced at a later stage.

III. CONCLUSION AND RECOMMENDATIONS

11. The arrangement it is intended to follow in 1991, whereby certain lapsed valid obligations could be compensated for by requests for revised appropriations in the framework of the second performance report for the following biennium, is at variance with the new budget process established by

General Assembly resolution 41/213 of 19 December 1986, which limits the size and nature of additions to a budget once it has been adopted. However, the latter process makes no provision for technical adjustments of the type described in the present report. On the other hand, the practice followed earlier by the Secretary-General, namely, retaining on his own initiative a few significant obligations as accounts payable beyond the time period stipulated by financial regulation 4.4, is also at variance with acceptable procedure.

12. In order to resolve the situation satisfactorily, the Secretary-General proposes that an acceptable procedure be found to enable long-term obligations to continue to be charged against the budget for the financial period in which they were approved, notwithstanding the one-year limitation period provided for in the financial regulations. There are two possible ways in which this might be done:

(a) By extending to other projects, specifically identified as being of a multiyear nature, the provision, currently applied to construction projects and the Integrated Management Information System, whereby appropriated funds are placed in a separate account, allowing unexpended balances to be carried forward into succeeding bienniums until the projects are completed. A rather broader proposal was made in paragraph 35.6 of the proposed programme budget for the biennium 1992-1993, wherein it was suggested that the entire provision for alterations, improvements and major maintenance under section 35 should be exempted from the lapsing provisions. In its related report, 2/ the Advisory Committee stressed the importance of providing adequate information concerning the anticipated cost and duration of a long-term project and pointed out that, if the General Assembly agreed to a given project, it would, on the basis of adequate supporting information, provide the resources necessary in each biennium. While the concerns of the Advisory Committee regarding the provision of adequate information will be fully respected, the Secretary-General, in returning to the proposal, would stress the multiyear nature of the projects in question and the difficulty in determining far in advance exactly how much would be required for each biennium, or what the actual cash disbursement situation would be one year after the end of the budget period, which is when financial regulation 4.4 takes effect.

(b) By recognizing that there may be certain contracts, not necessarily limited to section 35 of the proposed programme budget, which cannot be fully liquidated within 12 months of the end of the biennium to which they relate, and by authorizing the Secretary-General, in the context of the first performance report of the ensuing biennium, to draw such cases to the attention of the General Assembly. The Assembly, in turn, could authorize the selective waiving of financial regulation 4.4 in those cases where it was satisfied that a valid charge remained against the resources of the previous biennium requiring more than 12 months to liquidate.

13. Since the foregoing suggestions are complementary to one another, the Secretary-General proposes them both for the approval of the General Assembly.

Notes

1/ Official Records of the General Assembly, Forty-fifth Session, Supplement No. 5 (A/45/5, vol. I and Corr.1-2).

2/ Ibid., Forty-sixth Session, Supplement No. 7 (A/46/7), para. 35.4.